

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

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TO SECSTATE WASHDC 2444

INFO AMEMBASSY BERN

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USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMCONSUL NAPLES

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. BANK OF ITALY IS CONTINUING TO INTERVENE IN
EXCHANGE MARKETS DURING DECEMBER. LIRA HAS STRENGTHENED
SOMEWHAT DURING PAST TWO WEEKS AGAINST MAJOR CURRENCIES.
SINCE BEGINNING OF MONTH, SPREAD BETWEEN FINANCIAL

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AND COMMERCIAL LIRA RATES HAS NARROWED DUE TO

STRENGTHENING OF FINANCIAL LIRA PROBABLY AS RESULT OF MANIPULATIVE CAPITAL TRANSACTIONS ON PART OF ITALIAN RESIDENTS CONCERNED ABOUT IMPLEMENTATION OF NEW DIRECT TAX REFORM REGIME IN 1974. CUMULATIVE BALANCE OF PAYMENTS DEFICIT THROUGH NOVEMBER WAS \$860 MILLION AND DEFICIT FOR NOVEMBER ALONE WAS \$282 MILLION. IN DECEMBER, BANK OF ITALY RECEIVED \$,100 MILLION FROM STATE ENTITIES BORROWINGS ON EURODOLLAR MARKET. END SUMMARY.

2. ON DECEMBER 19, ERCOLANI, HEAD OF BANK OF ITALY'S FOREIGN EXCHANGE OPERATIONS, ACKNOWLEDGED THAT BANK CONTINUES TO SUPPORT LIRA. EMOBOFFS ASKED ABOUT NEW PATTERN OF RATES WHERE BLACK MARKET LIRE HAS DEPRECIATED WHILE REGULAR FINANCIAL LIRE (BUT NOT FOREIGN BANKNOTE LIRA RATE) HAS STRENGTHENED. ERCOLANI SPECULATED THAT PATTERN OF RATES REFLECTED TAX EVASION OPERATIONS BY ITALIAN RESIDENTS IN ANTICIPATION OF JANUARY 1 INCOME TAX REFORM. THUS, ITALIAN RESIDENTS EXPORT CAPITAL ILLEGALLY THROUGH BLACK MARKET AND REIMPORT CAPITAL THROUGH FINANCIAL MARKET IN ORDER TO REPURCHASE ITALIAN SECURITIES UNDER GUISE OF BEING NON-RESIDENTS.

3. ACCORDING TO PRELIMINARY MONETARY MOVEMENTS DATA FOR NOVEMBER, OVERALL BALANCE OF PAYMENTS DEFICIT WAS \$282 MILLION DESPITE RECEIPT OF COMPENSATORY EUROMARKET BORROWINGS BY STATE RAILROADS AND IRI AUTOSTRADA TOTALLING \$250 MILLION. DURING NOVEMBER NET OFFICIAL ASSETS FELL BY \$73 MILLION AND NET FOREIGN POSITION OF COMMERCIAL BANKS WORSENER BY \$209 MILLION. ON CUMULATIVE BASIS, OVERALL BALANCE OF PAYMENTS DEFICIT THROUGH NOVEMBER WAS \$860 MILLION FINANCED BY DECLINE IN NET OFFICIAL ASSETS OF \$651 MILLION AND WORSENER OF COMMERCIAL BANKS NET FOREIGN POSITION BY \$209 MILLION. IN ABSENCE OF EUROMARKET LOANS OF \$3,482 MILLION, DEFICIT WOULD HAVE BEEN \$4,342 MILLION.

4. ERCOLANI ALSO INFORMED TREASURY ATTACHE THAT BANK HAD RECEIVED \$1,100 FROM TWO ADDITIONAL EUROMARKET LIMITED OFFICIAL USE

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BORROWINGS, CCOP LOAN OF \$1,000 FOR SOUTHERN DEVELOPMENT AND \$100 MILLION FOR MESSINA-PALERMO-CATANIA AUTOSTRADA. (LATTER WAS REDUCED FROM PREVIOUSLY REPORTEDFIGURE OF \$120 MILLION.)

5. IN COMMENTING ON ECONOMIC IMPLICATIONS OF ENERGY CRISIS, EROCOLANI WAS DUBIOUS ABOUT ACCURACY OF ESTIMATES OF IMPACT OF GNP AND BALANCE OF PAYMENTS

THAT HAD SO FAR BEEN MADE BY INTERNATIONAL BODIES AND INDIVIDUAL GOVERNMENTS IN VIEW OF UNCERTAINTIES OF SUPPLY SITUATION WHICH VACILLATED BETWEEN REPORTS OF SEVERE SHORTAGES AND REPORTS OF NORMAL DELIVERIES. HOWEVER, HE BELIEVED THAT REAL PROBLEM LAY WITH INCREASED PRICE OF PETROLEUM WHICH HE CONSIDERED INESCAPABLE AND SERIOUS THREAT TO INFLATION AND BALANCE OF PAYMENTS.

6. DECEMBER 19 FINANCIAL LIRA RATE WAS 608.675 AND COMMERICAL LIRA RATE WAS 605.375. DIFFERENCE FROM ALMOST 19 LIRE AT BEGINNING OF DECEMBER TO 3 LIRE AS OF YESTERDAY, SMALLEST SPREAD SINCE LAST APRIL. TRADE WEIGHTED AVERAGE DEVALUATION OF LIRE SINCE SECOND DOLLAR DEVALUATION BASED ON "24 ORE" INDEX WAS 12.65 PER CENT ON DECEMBER 19. AVERAGE THREE-MONTH FORWARD RATE FOR FINANCIAL LIRE WAS 624.175. VOLPE

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